

16 July, 2021

IFRS Foundation
Columbus Building
7 Westferry Circus
Canary Wharf
London E14 4HD
United Kingdom

RE: IFRS Foundation Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards

Dear IFRS Foundation Trustee Members,

The IFRS Council of Japan welcomes the opportunity to comment on the *Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Standards Board to Set IFRS Sustainability Standards* (hereinafter "proposed amendments to the Constitution").

The Council is a conference body established for the purpose of gathering and exchanging the opinions of Japanese market participants related to International Financial Reporting Standards (IFRS), and comprises 9 organizations (Keidanren (Japan Business Federation), the Japanese Institute of Certified Public Accountants, Japan Exchange Group/Tokyo Stock Exchange, Inc., the Securities Analysts Association of Japan, Accounting Standards Board of Japan, Financial Accounting Standards Foundation, Financial Services Agency, Ministry of Economy, Trade and Industry, and Ministry of Justice). A working group under the Council was formed for discussing and submitting the comments on the Exposure Draft. Members of the working group are involved in the area of sustainability reporting, and represent major Japanese companies, industries, users of financial statements, auditing firms, accounting standard-setter, and government ministries and agencies. For other participants of the working group, please refer to the Appendix.

Since last year, the IFRS Foundation has accelerated its efforts towards developing global sustainability reporting standards. We commend the ongoing efforts of the IFRS Foundation to improve consistency and comparability of sustainability reporting. Given the strategic direction of the International Sustainability Standards Board (ISSB), which was announced by the IFRS Foundation in March this year, and the proposed amendments to the Constitution, our understanding is that the IFRS Foundation has its core foundation in providing decision-useful information for capital market participants, with investors at the center and other users of financial information. Particularly, our understanding is that the IFRS Foundation is focusing on

providing information relevant to the enterprise value and therefore is focusing on “single materiality”.

We believe that these views of the IFRS Foundation are generally consistent with our comment letter on the IFRS Foundation’s *Consultation paper on Sustainability Reporting* published last year. In general, we agree with and support the outline of the proposed amendments to the Constitution.

We are willing to contribute to the efforts to improve global sustainability reporting. In addition, if the IFRS Foundation officially decides to establish the ISSB, we will make a positive contribution to the sustainability reporting standard-setting process similar to what we have been doing for the standard-setting of IFRS Standards.

While we generally agree with the outline of the proposed amendments to the Constitution, we believe that the following points need to be considered.

1. As the ISSB members represent the public interest and will work for the development of globally accepted sustainability standards, it is important for the ISSB members to have diverse backgrounds, including the geographical regions and the industries they represent. On this point, the proposed amendments to the Constitution propose increasing the number of ‘at large’ seats compared with that of the IASB; however, we believe that the geographical balance of the entire membership of the ISSB, including the selection of ‘at large’ members, should be equivalent to that of the IASB. In addition, as for the part-time members, we believe that it is desirable that the number of part-time members is not strictly limited to ensure that the ISSB is composed of diverse and competent members for the development of high-quality sustainability standards. Furthermore, we believe that it is important to ensure transparency and appropriateness of the process in selecting the ISSB members in order to secure credibility of the ISSB.
2. As with selecting ISSB members, it is also important to ensure transparency and fairness of the standard setting process of the ISSB, that is, it should be equivalent to that of the IASB. Therefore, we believe that it is desirable that the ISSB's voting requirements for approval be equivalent to those of the IASB, instead of a simple majority.
3. In the area of financial reporting, we believe that the IFRS Foundation should maintain its commitment to continue working towards the realisation of “a single set of high-quality global standards” set forth in the G20 declaration. Therefore, we believe the IFRS Foundation should manage the funding for the IASB separately from the funding for the ISSB in order not to reduce resources (financial and human resources) related to the development of IFRS Standards.
4. In order to establish standards for sustainability reporting, it is important to secure sufficient funds and to determine the appropriate method of financing. Diversity of funding sources is important from the

viewpoint of ensuring independence and fairness. As such, the method of financing that may affect independence, such as excessive reliance on contributions from specific jurisdictions or institutions, should be avoided. In addition, objective indicators of contributions, such as pro rata share based on each jurisdiction's GDP, should be established to ensure fairness.

We hope that our comments will contribute to the discussions at the IFRS Foundation Trustees and other relevant bodies. We expect that the IFRS Foundation will proceed with the selection of the ISSB members and determination of the method of financing under fair and transparent processes, so that the ISSB will be able to begin the development of high-quality sustainability standards.

If you have any questions, please contact us.

Sincerely yours,

Appendix Members of the Working Group under the IFRS Council

Members of the IFRS Council

- Keidanren (Japan Business Federation)
- The Japanese Institute of Certified Public Accountants
- Japan Exchange Group/ Tokyo Stock Exchange, Inc.
- The Securities Analysts Association of Japan
- Accounting Standards Board of Japan
- Financial Accounting Standards Foundation
- Financial Services Agency
- Ministry of Economy, Trade and Industry
- Ministry of Justice

Other participants in the discussion at the working group for submitting the comments on the Exposure Draft

- Government Pension Investment Fund
- Japanese Bankers Association
- Japan Securities Dealers Association
- The Life Insurance Association of Japan
- The General Insurance Association of Japan
- Japan Investment Advisers Association
- Ministry of the Environment